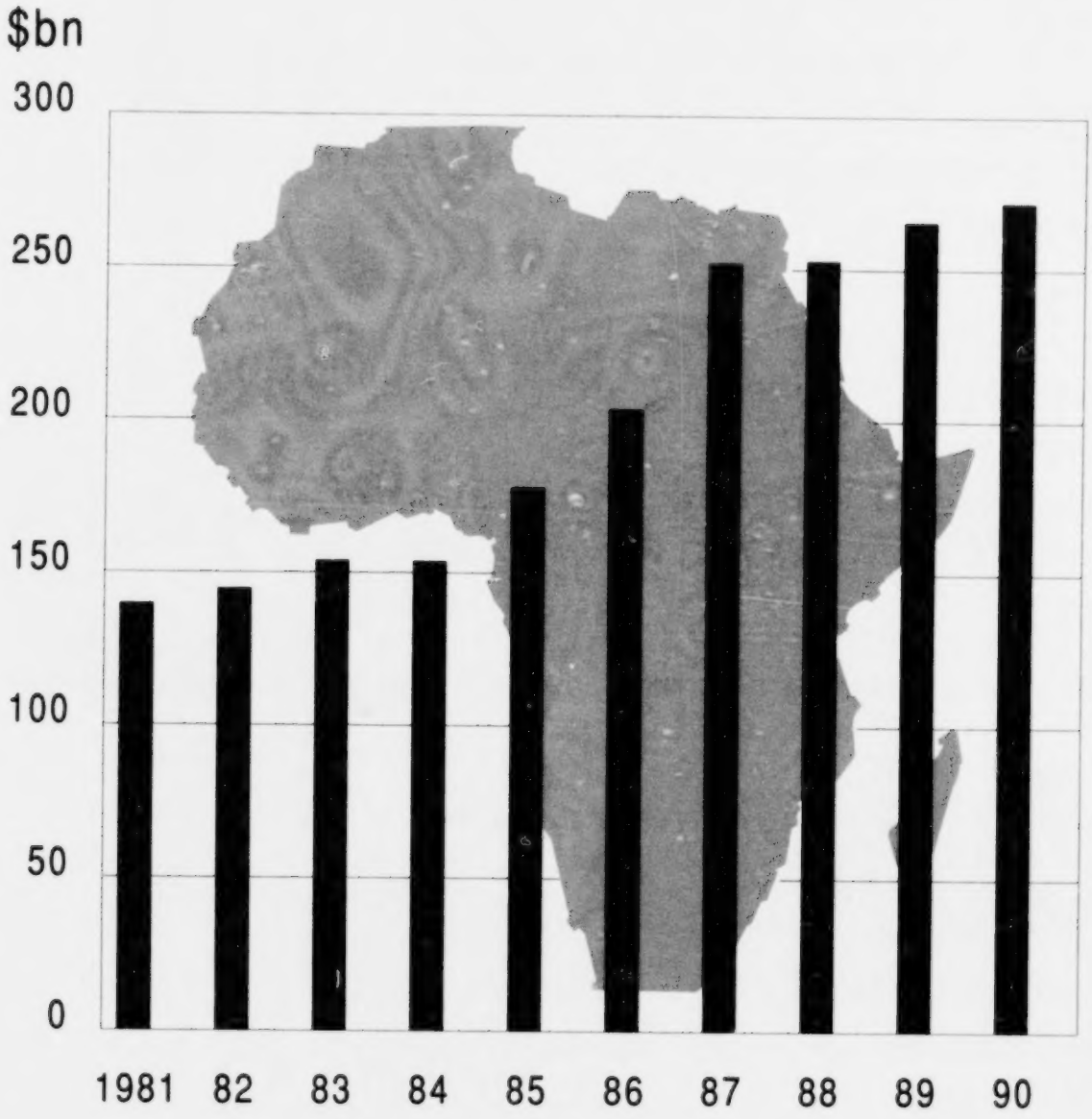
AFRICAN DEBT



The Case for Debt Relief

UNITED NATIONS

Africa's Debt Burden

"We agree on the need for additional debt relief measures, on a case by case basis [for the poorest, most indebted countries], going well beyond the relief already granted."
Leaders of the Group of Seven industrialized countries at their London summit, July 1991.

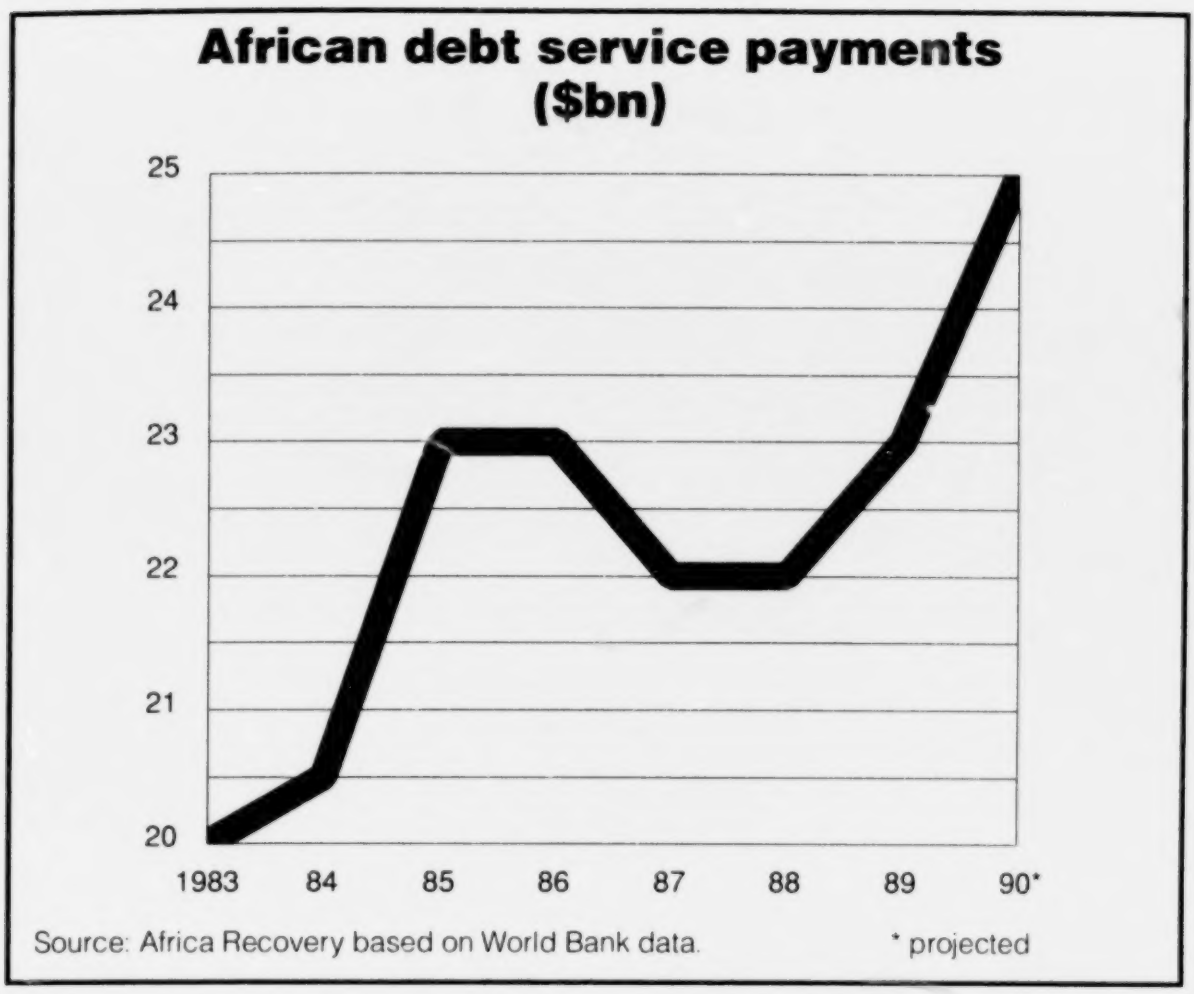
"It is simply not possible for African countries to develop with their debt burden exceeding $270 billion."
UN Secretary-General Javier Pérez de Cuéllar, August 1991.

"Indebtedness is the single major obstacle to development on the continent...The debt is crippling. We cannot continue this way."
Nigerian President and Organization of African Unity Chairman Ibrahim Babangida, September 1991.

Africa's debt rose sharply during the 1980s as its economic problems mounted. By 1990 the continent's total debt of $272 billion was two and a half times greater than in 1980. For the sub-Saharan region, debt had risen to $161 billion, about three times the 1980 level of $56 billion.

Africa's debt is less than a quarter of the developing world's total debt, but relative to the size of the continent's economies, it represents a burden far heavier than that faced by any other region. This debt is equivalent to 90 per cent of the continent's gross national product (GNP), and for sub-Saharan Africa, it is 112 per cent of GNP. No other world region comes close to these levels.

The amount Africa pays out in servicing this debt, some $25 billion last year, accounts for 30 per cent of the continent's export earnings — an extremely high level for countries with acute development challenges. Yet this level of debt servicing represents only 60 per cent of the original obligation due, a result of



rescheduled payments and the build-up of arrears. Paying back obligations in full would account for half of current export earnings. The depth of difficulty Africa has faced in servicing its debt can be seen in the soaring of arrears in interest payments to creditors, which have gone from around $1 billion in 1982 to about $11 billion last year.

This drain of resources through debt servicing has been compounded by steep falls in the prices of most African export commodities and a virtual cessation of foreign direct investment in many countries.

A unique burden

Unlike other regions, most of Africa's debt is owed to official creditors, both bilateral and multilateral. These account for some 60 per cent of the debt stock and the remainder is owed to private and short-term creditors. This pattern has been accentuated during the course of the 1980s by the steady contraction in commercial bank lending to Africa.

Even so, Africa owes nearly $100 billion to private creditors, and servicing this debt costs Africa $14 billion a year. With the sharp decline in new lending by banks, the private sector in recent years has been taking out far more than it puts into Africa, to the tune of a net outflow of almost $30 billion for the 1983-90 period. Efforts to revive private flows into developing countries through first the Baker and now the Brady

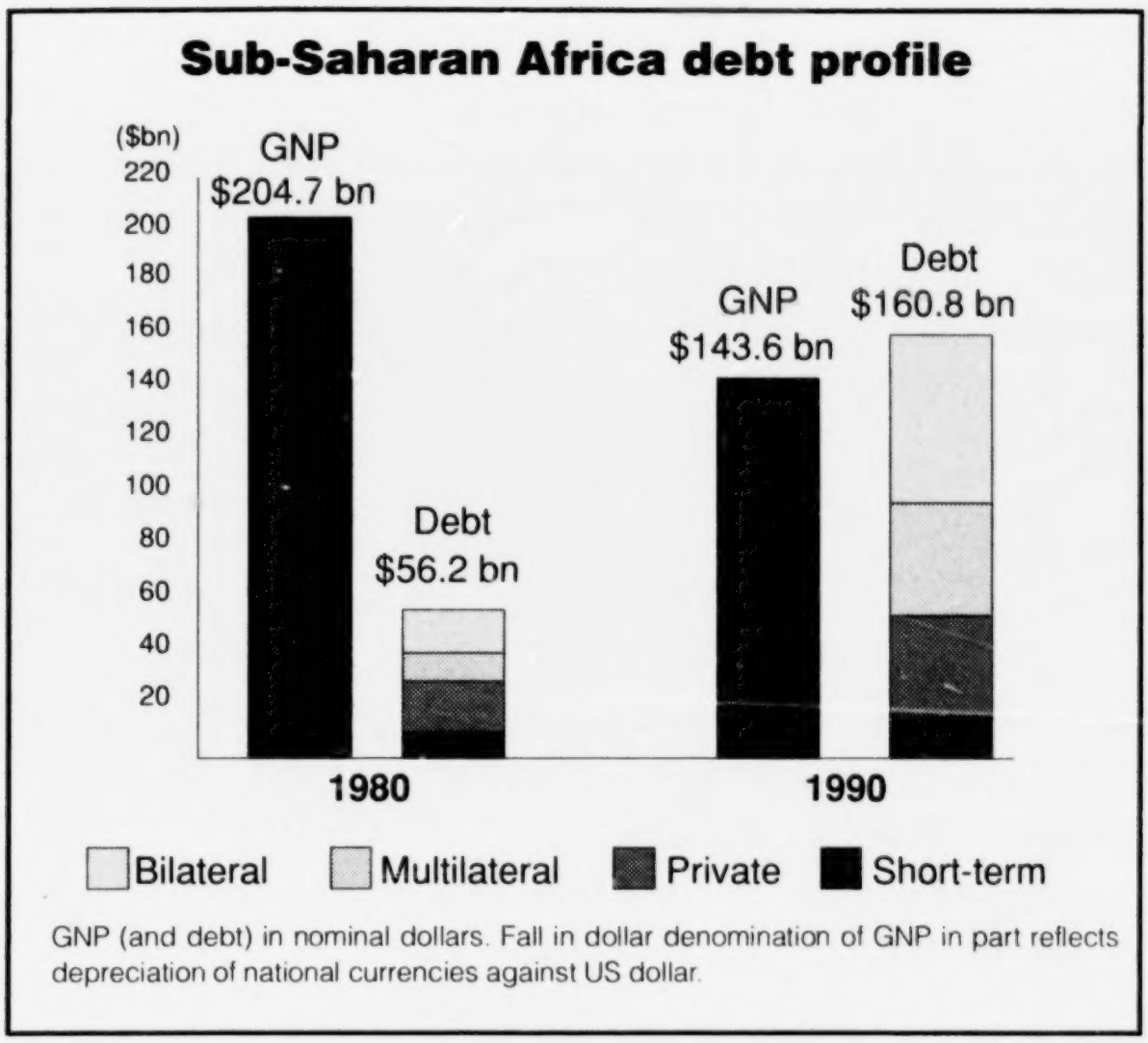
Plans — which link new private flows to a debt restructuring package and support from the multilateral agencies — have largely passed Africa by. Only Morocco has secured a version of the Brady Plan, although the World Bank, with backing from some official bilateral donors, has initiated a commercial debt buy-back scheme, from which Niger and Mozambique have so far benefited.

One notable feature of Africa's debt problem is the high proportion owed to multilateral institutions. This debt, which accounts for 25 per cent of sub-Saharan Africa's total debt, cannot be rescheduled under current rules. Since around 40 per cent of sub-Saharan Africa's debt servicing (excluding Nigeria) goes to multilateral institutions, obligations to them are a particularly heavy burden.

Need for urgent action

There is now universal agreement that urgent action needs to be taken to provide greater debt relief to African countries in light of the overwhelming constraints external debt poses to their development. Africa's total debt is virtually equal to the continent's entire annual economic output. The $25 billion debt service bill in 1990 was greater than the total aid received by Africa in the previous year — $21 billion. The World Bank has warned that debt payments will rise steeply in the 1990s in the absence of significant cancellations.

Several initiatives have been taken towards alleviating this debt burden. Specifically, the Group of Seven most industrialized countries has, since its 1987 Venice summit, and more so since its Toronto summit in 1988, written off or reduced certain categories of African debt. Up to 1990, the cancellations totalled some $7.6 billion, and such creditors as France and Italy have announced further measures. However, as pointed out in the Secretary-General's report for the final review and appraisal of the UN Programme of Action for African Economic Recovery and Development 1986-1990 (UNPAAERD), the benefits of such initiatives have been limited, not only because of the small number of beneficiary countries but also because of the magnitude of their debt burden.



GNP (and debt) in nominal dollars. Fall in dollar denomination of GNP in part reflects depreciation of national currencies against US dollar.

Some creditor countries have recognized this problem, hence the scheme — known as the Trinidad terms — proposed by the UK which would improve on the Toronto package by reducing in one stroke the stock of eligible debt by two-thirds instead of one-third, with repayments on the remaining debt spread over 25 years.

The universal recognition that external debt is hampering Africa's capacity to engineer economic recovery and lay the foundations for sustained growth and development should lead to more drastic and far-reaching solutions than even the Trinidad terms. It is in this context that the UN Secretary-General made the following proposals in his report on the final review of UNPAAERD:

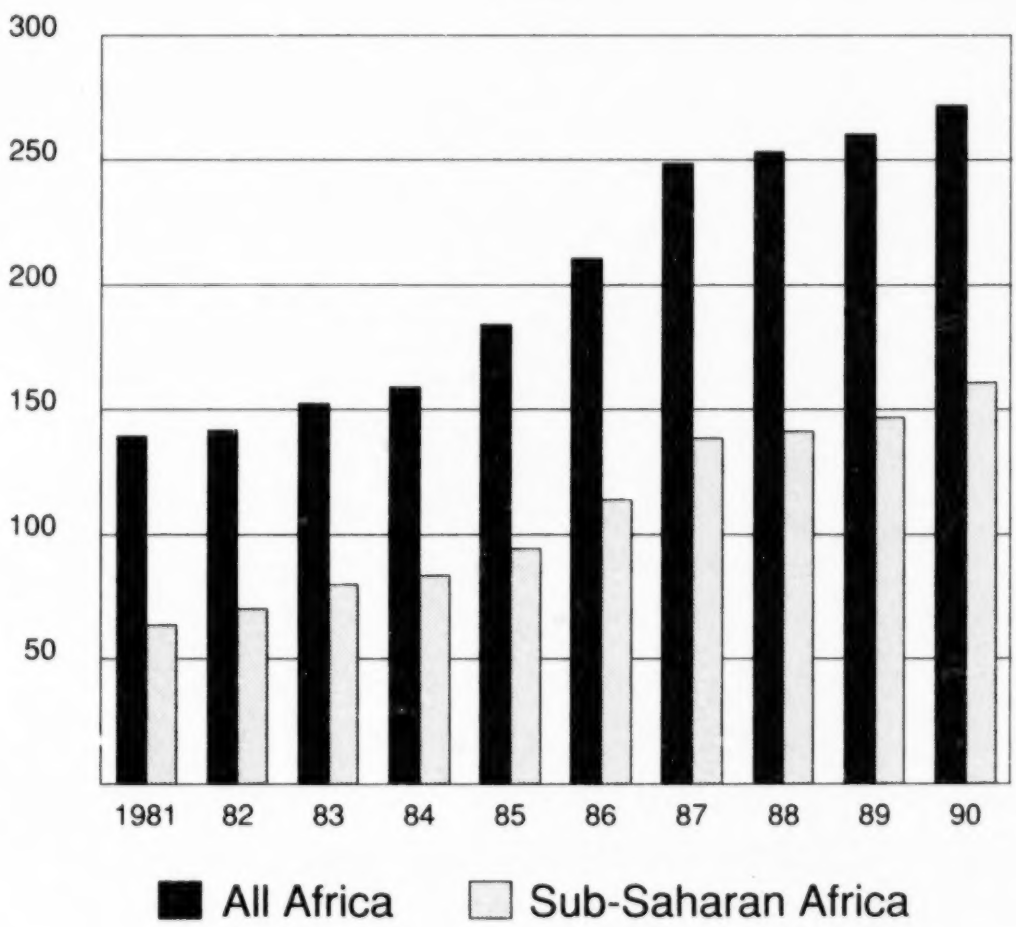
- Cancellation of all official bilateral debt.
- Cancellation of other semi-official debts, such as export credits.
- A concentrated effort to find the means to substantially reduce multilateral debt.
- The writing down of commercial debts, which are already highly discounted on the financial markets, at commensurate rates and the buying back of the remainder through donor-sup-

ported initiatives, including various swap options.

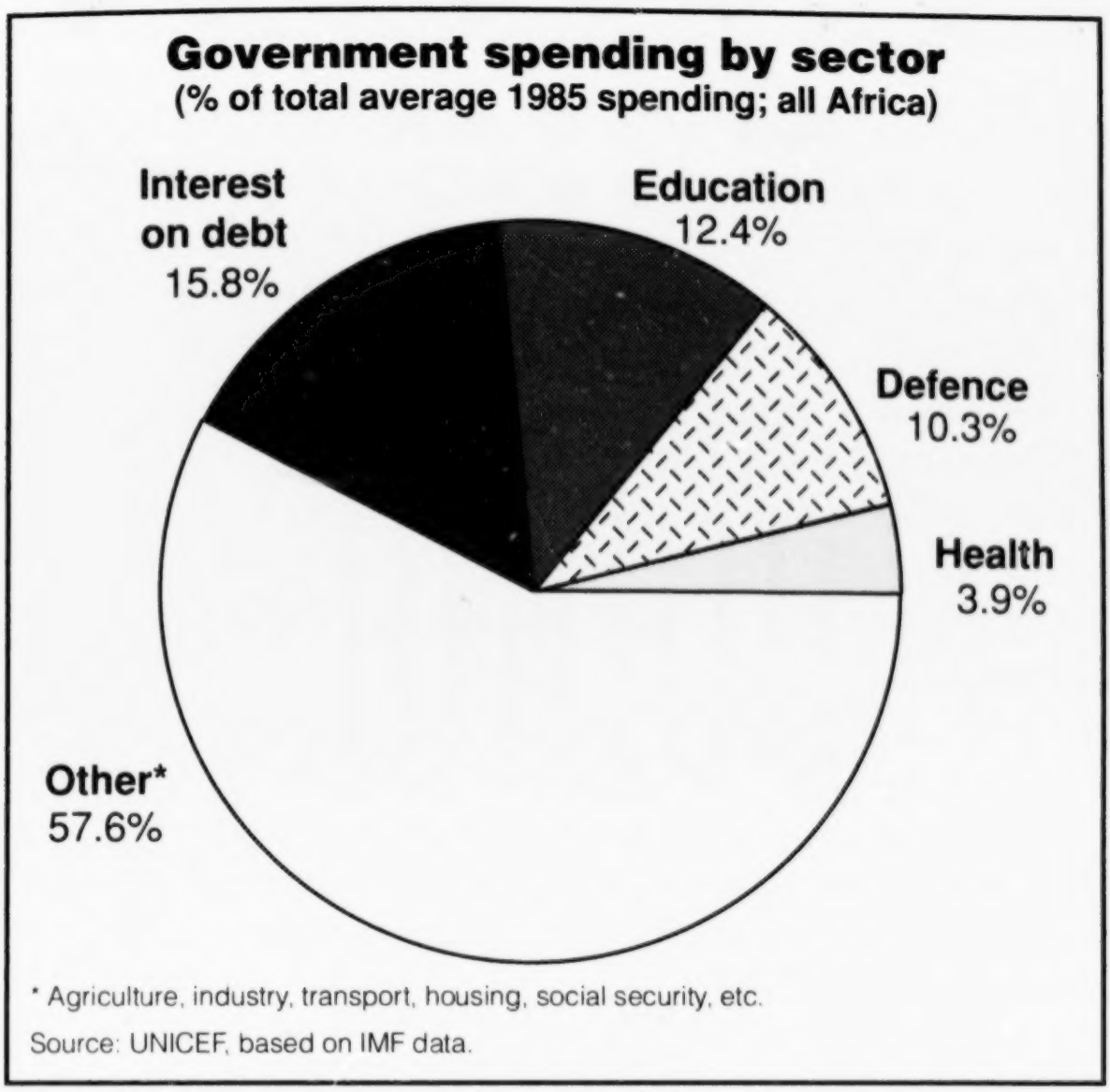
This call by the Secretary-General was recently echoed by the current Chairman of the Organization of African Unity (OAU), President Ibrahim Babangida of Nigeria, in his address to the 46th session of the General Assembly. He urged creditor nations to forgive the official bilateral debt of all countries undertaking "credible and sustained structural adjustment programmes....credible environmental protection programmes....credible democratization processes."

The OAU Chairman effectively set the African debt crisis in the context of wider development issues. These include the need for special and very substantial financing for Africa from both public and private sources; measures to strengthen and enhance Africa's export base to enable it to finance its development; the need to build up human and institutional capabilities in African countries, especially private entrepreneurship; and the need in Africa for better management, accountability and transparency in the conduct of public affairs, particularly economic affairs.

Africa's mounting external debt
($bn)



Source: Africa Recovery, based on World Bank, OECD and ECA data.


Government spending by sector
(% of total average 1985 spending; all Africa)
Interest on debt 15.8%
Education 12.4%
Defence 10.3%
Health 3.9%
Other* 57.6%
* Agriculture, industry, transport, housing, social security, etc.
Source: UNICEF, based on IMF data.

Two-pronged approach

There should be, therefore, a two-pronged approach to the relief of Africa's debt burden. First, creditor countries should agree to the recent proposals made by the UN Secretary-General and the OAU Chairman calling for decisive action to ease Africa's debt crisis. The recent announcement by the UK government that it would implement, for the poorest countries, enhanced debt relief along the lines proposed last year in Trinidad, is a positive first step in this direction. Secondly, African countries should continue, and indeed both broaden and deepen, the necessary adjustment of their economies, for which full popular participation is also needed in a democratic process of development. For these efforts to succeed, they will have to be supported by increased public and private financial flows to Africa, together with the appropriate technical assistance aimed at building up domestic capabilities.

Seen in this wider context, the African debt problem requires a new working relationship between African countries and all their development partners, from bilateral and multilateral donors to non-governmental organizations and the foreign private sector.

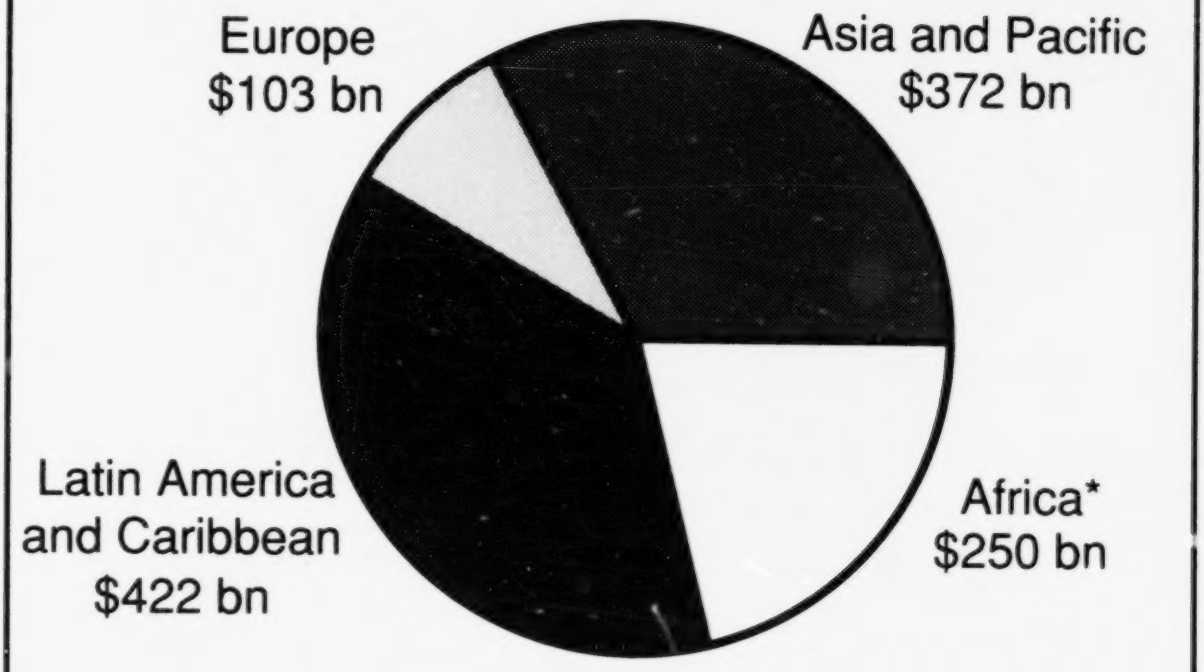
DEBT PROFILE OF AFRICAN COUNTRIES

Country	Total Debt 1980 ($mn)	Total Debt 1989 ($mn)	Debt Structure (%) Official Bi-lateral	Official Multi-lateral	† Private	Debt Service 1989 (actual*) $mn	Debt Service 1989 (actual*) as % of exports	Debt Service 1990 (obligation*) $mn	Debt Service 1990 (obligation*) as % of exports	Debt/ GNP 1989 (%)	GNP per capita 1989 ($)
Algeria	19,377	26,067	20	8	72	7,220	68.9	6,424	61.3	57.6	2,230
Angola	n.a.	5,523	76	1	23	447	13.4	n.a.	n.a.	71.5	610
•Benin	417	1,177	28	37	35	26	6.7	77	20.0	71.9	380
Botswana	133	513	24	68	8	69	3.6	82	4.0	36.5	1,600
Burkina Faso	334	756	16	70	14	39	9.4	47	11.3	29.6	320
Burundi	166	867	22	70	8	38	33	49	42.6	81.9	220
Cameroon	2,513	4,743	39	26	35	365	19.4	691	36.7	42.2	1,000
Cape Verde	20	130	89	6	5	5	n.a.	11	n.a.	45.9	780
•Central Afri. Rep.	20	716	40	52	8	30	14.1	36	16.9	65.8	390
•Chad	218	368	21	69	10	12	5.3	10	4.4	36.7	190
Comoros	44	176	31	61	8	4	9.1	9	23.2	88.2	460
Congo	1,496	4,316	35	13	52	320	27.0	914	77.1	214.9	940
Côte d'Ivoire	5,848	15,412	19	16	65	1,358	40.9	1,912	57.6	182.2	790
Djibouti	32	180	29	44	27	15	n.a.	13	n.a.	n.a.	617
Egypt	20,384	48,799	58	11	31	2,992	21.8	7,903	57.5	159.0	640
•Equatorial Guinea	76	228	61	30	9	6	18.7	14	43.2	182.7	330
Ethiopia	804	3,013	48	36	16	280	38.7	322	44.5	50.6	120
Gabon	1,513	3,176	48	11	41	223	11.9	199	10.6	108.9	2,960
Gambia	137	342	25	64	11	18	10.9	20	11.8	172.9	240
Ghana	1,314	3,078	20	73	7	438	49.3	204	22.9	59.9	390
•Guinea	1,117	2,176	60	29	11	113	15.2	262	35.3	85.3	430
•Guinea-Bissau	132	458	43	46	11	12	43	20	74.1	276.3	180
Kenya	3,530	5,690	21	45	34	645	33.3	664	34.3	71.7	360
Lesotho	71	324	9	80	11	22	2.8	32	4.0	39.0	470
Liberia	686	1,761	27	41	32	5	n.a.	137	n.a.	176.3	404
Libya	n.a.	5,419	47	1	52	463	5.3	n.a.	n.a.	n.a.	5,310
•Madagascar	1,257	3,607	56	33	1	240	52.4	541	117.9	154.1	230
Malawi	821	1,394	19	73	8	95	28.0	76	22.4	89.4	180
•Mali	733	2,157	59	38	3	66	18.6	124	34.8	105.3	270
•Mauritania	845	2,010	60	30	10	102	20.1	170	33.4	213.2	500
Mauritius	467	832	29	42	29	143	9.8	106	7.3	41.0	1,990
Morocco	9,678	20,851	54	23	23	2,046	32.2	3,343	52.6	95.9	880
•Mozambique	n.a.	4,737	60	9	31	63	24.4	613	238.5	474.2	80
•Niger	863	1,578	27	43	30	122	33.0	155	42.0	79.4	290
Nigeria	8,934	32,832	37	10	53	1,796	21.3	4,802	57.0	119.3	250
Rwanda	190	652	18	74	8	29	18.5	25	15.7	30.2	320
Sao Tome & Principe	24	131	40	44	16	5	44.7	10.6	97.2	329.7	340
•Senegal	1,468	4,139	51	37	12	379	29.4	534	41.4	93.2	650
Seychelles	84	168	36	25	39	24	11.9	21	10.1	60.4	4,230
Sierra Leone	430	1,057	24	26	50	4	n.a.	33	n.a.	118.9	220
Somalia	660	2,137	52	39	9	32	34.0	118	124.2	202.8	170
Sudan	5,163	12,965	42	18	40	97	7.9	1,202	97.5	82.9	641
Swaziland	206	281	42	48	10	35	4.8	32	4.5	43.6	900
•Tanzania	2,572	4,918	55	34	11	87	16.6	365	69.1	186.1	130
•Togo	1,045	1,185	33	49	18	90	18.8	86	17.8	91.8	390
Tunisia	3,527	6,899	39	31	30	1,138	22.5	1,349	26.7	71.7	1,260
•Uganda	733	1,808	22	66	12	209	81.2	148	57.4	44.7	250
•Zaire	4,860	8,843	59	24	17	513	21.5	862	36.1	96.6	260
•Zambia	3,266	6,874	34	31	35	171	12.3	529	37.9	137.9	390
Zimbabwe	786	3,088	27	19	54	472	25.6	536	29.1	53.6	650
Total/Average**	**108,994**	**260,551**	**41**	**21**	**38**	**23,123**	**26.5**	**35,452**	**47.1**	**86.53**	**756**

• Debt rescheduled on Toronto terms, 1988-90; † Including all short-term debt; * 1989 debt service covers *actual* payment on long and short-term debt, including IMF. 1990 debt service equals scheduled payments on *long-term debt only, excluding IMF*; ratio expressed as a % of 1989 exports. ** Weighted averages n.a. Not available

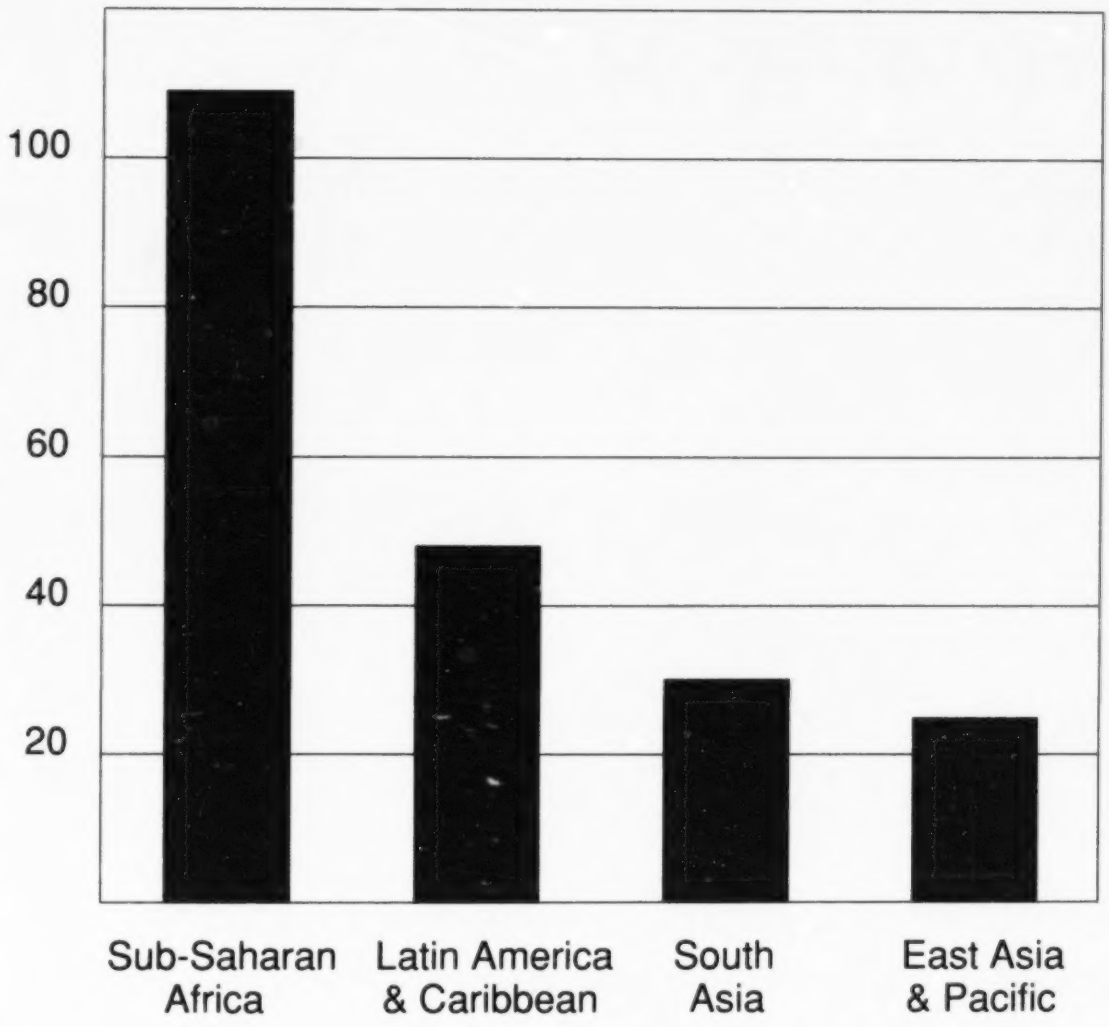
Source: Africa Recovery based on World Bank *World Debt Tables, 1990-91*, (and World Bank, *World Development Report, 1991*, for GNP per capita) except for Angola and Libya (which are based on OECD data for debt, and ECA for export data). Namibia not included because of lack of data. All debt totals refer to long and short-term debt. The GNP per capita for all-Africa is unweighted.

Africa's share of world debt
(Total $1,147 bn, 1989)



* Excludes Angola and Libya.
Source: Africa Recovery, based on World Bank data.

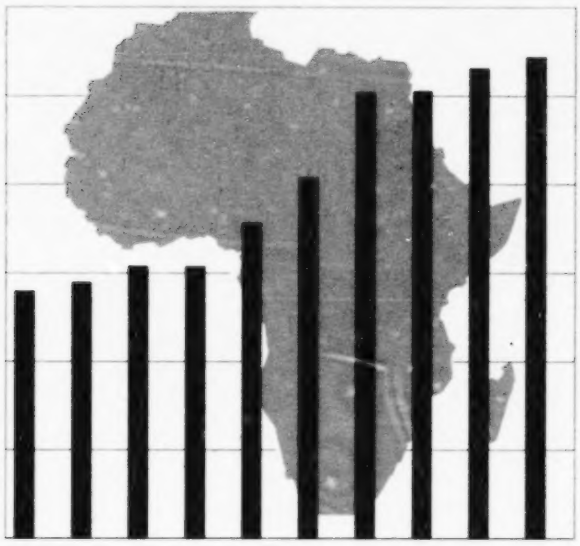
Africa's debt burden
(external debt as % of GNP, 1990)



Source: Africa Recovery based on World Bank data.

PRODUCED FOR THE OFFICE OF THE DIRECTOR-GENERAL FOR DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION, AND THE ECONOMIC COMMISSION FOR AFRICA, UNITED NATIONS
OCTOBER 1991

AFRICAN DEBT



The African debt problem requires a new working relationship between African countries and all their development partners, from bilateral and multilateral donors to non-governmental organizations and the foreign private sector. More specifically, the following important proposals discussed in this pamphlet need to be urgently addressed:

- Cancellation of all official bilateral debt.
- Cancellation of other semi-official debts, such as export credits.
- A concentrated effort to find the means to substantially reduce multilateral debt.
- The writing down of commercial debts, already highly discounted on the financial markets, at commensurate rates, and the buying back of the remainder through donor-supported initiatives, including various swap options.
- Special and very substantial financing for Africa, from both public and private sources.
- A strengthened and enhanced export base.

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